

FAQs

SB 524

"GRANHOLM-IZING BEER DISTRIBUTION IN MONTANA "

1. **Question:** Why are there limits placed on the quantity of beer that can be sold direct from breweries to retailers?

Answer: Two fold: leveling the playing field among Montana retailers and controlling the potential loss of tax revenue.

Leveling playing field: Currently, the mega-retailers hold the power in the beer distribution system. If stores like Costco and Walmart can direct order beer in massive quantities, they can vastly undercut the price offered by Montana's smaller beer specialty stores, like Toppers or convenience stores. Limited quantities of beer being direct-shipped levels the playing field among retailers in Montana.

Controlling Loss of Tax Revenue: Under the pre-Granholm system, the middle tier of the distribution system is the window that allows the beer distribution system in this country to be transparent. With a middle tier, the state knew where the beer came from, how much entered the state, where it was stored, to whom it was sold and if the proper taxes were paid. With the change to be made by SB 524, Montana will have less control over, and knowledge about where the beer comes from, to whom it is sold or has access to it, or if the state is to collect the proper tax from the sale. With volume limits, we can minimize any potential loss of tax revenue because we believe that most beer will continue to be distributed through the three tier system.

2. **Question:** The volume limits sound like a turf war among

members of the industry. Where does the consumer fit into all of this?

Answer: The consumer will win. The consumer will not be affected by the volume caps. The caps are merely a mechanism, for balancing access with regulated orderly, accountable, flow of, a “unique” product which should be regulated differently than other products by the State and Federal Government. The consumer wins by the tight control of the product. Various modifications to the three tier system have always been motivated to balance access with regulated control and from our experience, the consumer always wins.

3. **Question:** Why is there no distribution of beer by common carrier?

Answer: Less trust for deliveries made by common carrier – those businesses are not under the control of the Department of revenue. In addition, given the nature of beer as a product – either in draught which involves heavy kegs or in cans and bottles with a limited shelf life, beer delivery by common carrier is not practical.

4. **Question:** Why is there a requirement that the brewery use its own equipment and employees?

Answer: First of all, the idea for this limitation came from Washington State. Their legislation to allow shipment of wine direct from out-of-state wineries to retailers contains a similar limitation. Again, the reason is enforceability. This limit recognizes that the distributor in the current three-tier system assists in the enforcement of laws relating to the distribution of alcoholic beverages. To the extent that the distributor is being supplanted by an out-of-state brewery, that brewery must maintain control of the product and using its own employees and equipment is the most

surefire way to accomplish that goal.

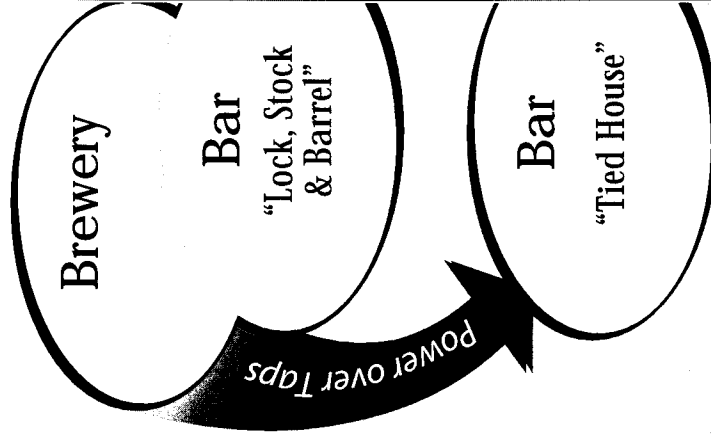
There is another principle at play: non-delegable duty or accountability. The breweries should be directly accountable for assuring that their product reaches only properly licensed Montana retailers – and (other than the very limited volumes by common carrier) they should not be allowed to delegate that duty.

- 5. Remember: This is a consensus bill endorsed by the Montana breweries, the Montana Beer & Beer Distributors' Association, and the government agency responsible for enforcement of liquor control laws: the Department of Revenue.**

American Alcohol Distribution System

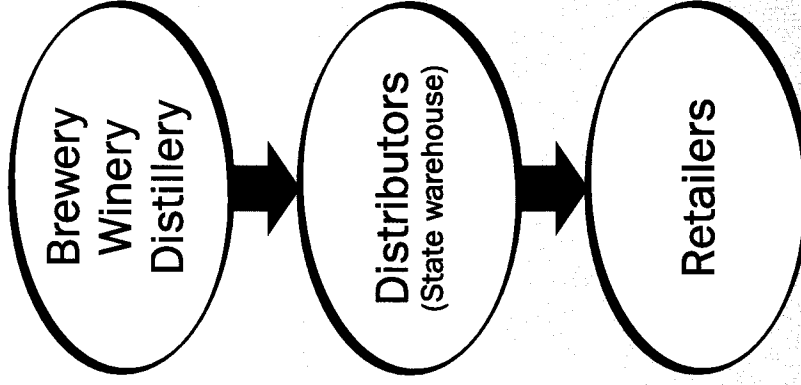
Pre-Prohibition

1919
to
1933



- Vertical monopoly
- Uncontrolled greed by the manufacturer
- Sole objective: Sell the most

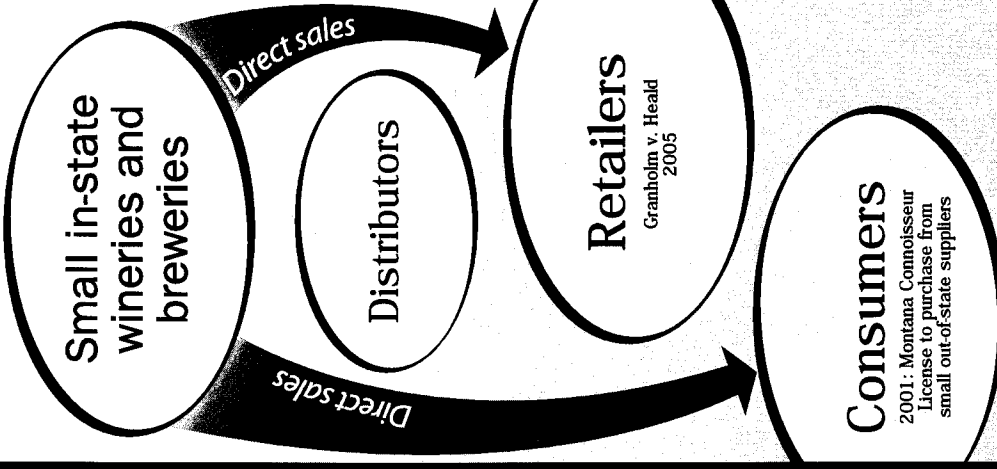
Strict 3-Tier System



- Duties at each level
- Independence to disperse power
- Middle tier: promotes moderation

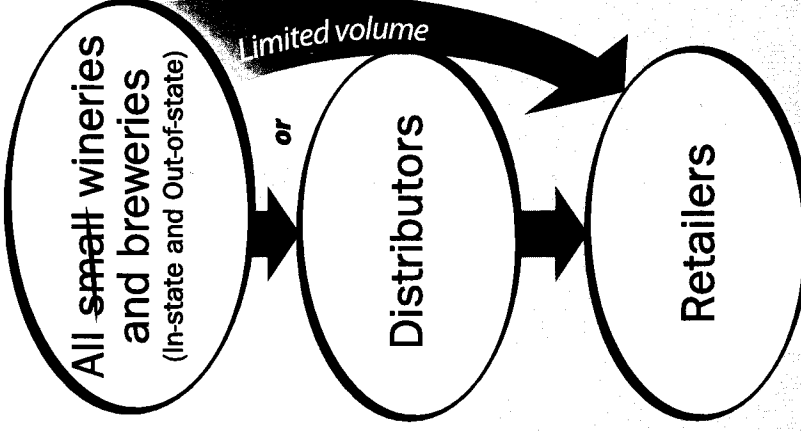
Nationwide Trend Hometown Exemptions

May
2005



Montana Remedy:

Level Up NOT Level Down



- Own employees and delivery trucks
- Continue role of license verification
- Volume limits

Granholm decision